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Strictly Confidential (FR) Class II FOMC

March 22, 1995

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

Overview

The pace of economic expansion appears to have slackened considerably in the current quarter--indeed, probably more than was anticipated in the last Greenbook. Final demand has moderated across a broad front, and negative developments in the housing and auto sectors, in particular, seem to presage a relatively sluggish pattern of activity into the spring. On the inflation side, the core CPI increased more rapidly in the opening months of 1995, as we had anticipated. However, whether this more rapid increase signals a deterioration in the underlying trend of prices is as yet unclear: Although utilization rates for labor and industrial capital remain high, wages show no sign of an acceleration, and the recent uptick in retail inflation has done little more than offset the surprising dip in the fourth quarter of last year.

We now expect that growth in real GDP will average about 2 percent, at an annual rate, in the first two quarters of this year, half a percentage point less than forecast in the January Greenbook. However, further weakening in activity, though possible, does not appear probable. Although the disruption of the Mexican economy appears to be a bigger negative than we had anticipated, the effects on U.S. growth should be concentrated in the nearer term if the current stabilization efforts prove successful. Meanwhile--despite the System's February tightening action--longer-term interest rates have dropped, the stock market has rallied, and the dollar has depreciated substantially against the yen and several European currencies; these factors should help buttress aggregate demand later this year. Thus, we expect that real GDP will record an increase of a bit more than 2 percent over the course of 1995, very close to our previous forecast. And, with an unchanged federal funds rate and essentially stable exchange rates, growth may edge upward in 1996; although the effects of federal fiscal consolidation will be a drag on demand, the downward adjustment in the pace of inventory accumulation will largely be complete by the end of 1995, and an increase in net exports will make a positive contribution to growth next year.

The moderate output growth we are projecting seems likely to be associated with a slight updrift in the unemployment rate from its February level of 5.4 percent. Sizable additions to capacity should help to produce a decline in factory utilization rates as well. But in neither labor nor product markets does the predicted degree of resource utilization suggest any downward pressure on inflation--especially in the nearer term when the effects of the recent large increases in materials prices and of the decline in the dollar will be felt. Thus, we continue to project that core CPI inflation will run about 3-1/4 percent over the forecast period, up from 2-3/4 percent in 1994.

Key Assumptions

The last Greenbook baseline forecast assumed that the federal funds rate would be held at 5-1/2 percent through 1996. Bond yields were expected to fall considerably by the end of this year, however, as economic growth slowed perceptibly and inflation expectations were curbed. In the event, the FOMC hiked the funds rate half a percentage point in February, but the adverse effects of the rise in carrying costs in the bond markets were offset by the signs of moderation in activity and by the statements from System officials that suggested a reduced likelihood of further tightening in coming months. Those same factors also contributed to the weakening of the dollar on foreign exchange markets.

The current forecast is based on the arbitrary assumption that the funds rate will remain at 6 percent through the end of next year. Bond yields seem likely to decline somewhat further over the next couple of quarters given the slackening of the economy, but we are anticipating that the dollar will remain around the current level on a trade-weighted basis against other G-10 currencies and that the U.S. current account deficit will level off next year. This outlook assumes a stabilization of the situation in Mexico and a respectable growth performance abroad; with the dollar at the current lower level, U.S. producers should be in a strong competitive position.

Also on the financial side, our expectation is that the trend of the past two years toward easier lending standards will abate. The wisdom of the terms on recent business loans has already been questioned by some bankers, and we expect that household debt repayment performance will deteriorate modestly over the forecast period. In the projected economic environment, major credit quality problems are unlikely to arise, but concerns about the risks may still suffice to motivate lenders to begin exercising greater caution.

With regard to fiscal policy, the recent failure by the Congress to pass the Balanced Budget Amendment has increased the uncertainty about prospects for deficit reduction. Still, with public sentiment for smaller deficits maintaining some political impetus for action on this front, it seems reasonable to expect that elected officials will implement at least a small step toward a balanced budget over the next couple of years. Thus, we have retained our January Greenbook assumption of a deficit reduction package of $20 billion in fiscal year 1996, to be followed by another increment of $30 billion in fiscal year 1997.[1] This path would be short of any reasonable glide path to budgetary balance in 2002, but we think it a balanced assumption at this point in light of the contentiousness of the issues; these figures could also be viewed as discounting the "smoke and mirrors" element of a nominally deeper deficit-reduction package. As in the last Greenbook, we are assuming that fiscal policy developments do not produce a radical change in longer-range expectations; we do not think that the actions embodied in our forecast would be a great surprise to the markets.

Current-Quarter Outlook

Our forecast of real GDP growth in the first quarter is 2-1/2 percent--about 3/4 of a percentage point below the point estimate in the January Greenbook and well below the 4-1/2 percent pace registered in the fourth quarter of 1994. Even at this late March date, the dataset for the current quarter has gaping holes, but the downscaling of our GDP forecast seems well warranted by the soft figures on final sales thus far. In fact, in a number of expenditure categories, we have anticipated fairly hefty increases in yet-to-be-published monthly data. To balance out the accounts, we have assumed inventory investment at a pace somewhat higher than that recorded in the final quarter of last year.

As is customary at this stage in a quarter, our assessment of GDP growth has been heavily influenced by the evidence on labor market activity. The pace of hiring appears to have fallen off only a little from that of last year, and aggregate production-worker hours, despite a decline in February, seem likely to rise almost

1. In addition, the House has passed a package of rescissions that would cut $17 billion from the appropriations approved by the previous Congress for fiscal year 1995. According to preliminary CBO estimates, the package would lower actual outlays in fiscal 1995 by about $2 billion, with the remainder of the spending cuts spilling over into subsequent years.

3 percent at an annual rate on a quarterly average basis. In addition, the average unemployment rate in January and February turned out to be just a little below its level last fall--suggesting the likelihood of output growth in the vicinity of our estimated potential rate of approximately 2-1/2 percent.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, at annual rates, unless otherwise noted)

	1994:Q4	1995:Q1
Real GDP	4.6	2.5
Previous	5.0	3.2
Final sales	5.3	1.9
Previous	4.7	4.0
Unemployment rate (level, percent)	5.6	5.5
Previous	5.6	5.3

As noted above, a marked slowing has occurred in most of the major components of final demand. Consumer spending is expected to rise 2-3/4 percent at an annual rate this quarter, which would be 3/4 of 1 percentage point below the average pace of growth over 1994. It would also be well under the pace we predicted in the last Greenbook, in which we expected a reversal of the unexplained jump in the personal saving rate in the fourth quarter. A sharp drop-off in sales of motor vehicles accounts for most of the deceleration in consumption.[2] However, the most recent data on retail sales also contained signs of broader spending cutbacks by consumers, especially for non-auto durable goods. We suspect that delays in federal tax refunds have temporarily delayed discretionary purchases

2. The drop-off in motor vehicle sales is slightly less pronounced with FRB seasonals. Using BEA seasonals, sales fell from 15.4 million units (annual rate) in the fourth quarter to 14.8 million units, on average, in January and February. With FRB seasonals, the decline was from 15.3 million units to 14.9 million units.

by some lower-income households.[3] However, this seems an inadequate explanation for the sluggishness of spending in the face of large aggregate income gains since last summer. Slackening housing activity probably has been a factor, and increased debt-service burdens may be curbing some households' spending propensities. However, rising interest income has bolstered the finances of many consumers, and despite some erosion in the past couple of months, confidence indexes have remained high in various surveys.

In the housing market, revised data now reveal considerable weakness in home sales in the latter part of 1994, and the long-awaited effects of higher mortgage rates were also reflected in the start figures for January and February. In particular, single-family starts fell from 1.20 million units at an annual rate in the fourth quarter to 1.05 million units, on average, in the past two months; moreover, various surveys suggest that the weakness may have continued into March. Consequently, we are now projecting that real outlays for residential investment will decline about 5 percent at an annual rate in the current quarter, with all of the drop-off in single-family construction. And the lagged effects of fewer starts this quarter imply a still-bigger drop in construction in the second quarter.

Considerable uncertainty surrounds our estimate of business investment this quarter. In light of the incoming data, we have trimmed our prediction for growth in real fixed investment by a couple of percentage points, to 8-3/4 percent at an annual rate. However, we have reason to question the extent of the deceleration

3. These delays are resulting from greater IRS scrutiny of returns claiming refunds, focusing in particular on the Earned Income Tax Credit. Because BEA will smooth through this timing change, the delay in tax refunds does not affect the projections of personal income growth in the first and second quarters.

indicated by the available data. Most of the expected slowing in BFI reflects a recent downturn in the reported shipments of computers and a surprisingly small decline in the PPI used to construct the associated deflator. These figures are at odds with trade reports of strong demand for computers and deep price cuts; given indications that some important computer firms may not be responding reliably to the monthly Census M3 survey, we are skeptical that the available numbers are accurately portraying expenditures in this area. We have anticipated sizable increases in computer shipments over the remainder of the quarter, but these increases still leave the level of real outlays for this category of equipment down somewhat--the first decline in four years. In contrast, the available evidence suggests that spending on other types of equipment and on nonresidential structures will be up sharply this quarter.

In filling out the accounts, we have penciled in a step-up in the pace of business inventory investment for the current quarter. In the last Greenbook, inventories were expected to make a negative contribution to real GDP growth, but the downward revision of the fourth-quarter rate of accumulation, the appreciable increase in stocks reported for January, and the gains in manufacturing output through February have caused us to reverse the sign.[4] Given the sluggish pace of final sales, the projected pace of inventory investment seems likely to give rise to some unintended accumulation. Such accumulation clearly has occurred in the motor vehicle sector, where days' supply for many models has risen to uncomfortable levels.

4. Although monthly increases in the manufacturing component of industrial production in January and February were relatively moderate, the sharp increases late last year likely will result in an increase in factory output in the current quarter of more than 6 percent (annual rate) on a quarterly average basis.

Net exports are projected to subtract from GDP growth in the current quarter. The trends in merchandise trade prevailing at the end of 1994 now look more favorable than was the case at the time of the last Greenbook. But any optimism these trends might have engendered about the prospects for the trade balance in early 1995 has been outweighed by the sharper-than-anticipated deterioration in the Mexican situation. The plunge in the peso and the slump in Mexican economic activity are expected to take a substantial chunk out of U.S. net exports in the first half of this year.

The incoming data on average hourly earnings have continued to run at the moderate pace evident in 1994. However, price increases at the consumer level have picked up in recent months, with the "core" rate of inflation--as measured by the CPI excluding food and energy--up 0.4 percent in January and 0.3 percent in February, after increases averaging 0.2 percent per month over the second half of last year. To a significant degree, the larger increases in prices in recent months--which were concentrated in services and used cars--have simply offset unexpectedly small increases late last year. The twelve-month change in the core CPI as of February was 3.0 percent, up only a touch from the 2.9 percent year-over-year changes registered between June and October of last year. However, the PPIs for materials and intermediate supplies have continued to climb steeply this year, and although prices of newly produced consumer goods have not picked up noticeably to this point, rising materials prices will add further to pressures on final goods prices. All told, we have raised our forecast for the current-quarter increase in the core CPI roughly 1/4 of 1 percentage point, to 3-1/2 percent; this forecast anticipates an increase of about a quarter point in March.

The Longer-Run Outlook for the Economy

We think that real GDP growth likely will slow further in the second quarter, perhaps to around 1-3/4 percent at an annual rate. Final demand may firm somewhat in the near term, as spending on consumer goods and computing equipment bounces back from below trend in the current quarter, but we are looking for a considerable drag from inventory investment this spring. The inventory correction in the motor vehicle sector is a major factor: The projected drop in the production of cars and light trucks will chop more than 1 percentage point off GDP growth in the second quarter.

SUMMARY OF STAFF PROJECTIONS
(Percent change at annual rates)

	1994	1995			1996
		Q1	Q2	H2	
Real GDP	4.0	2.5	1.7	2.2	2.3
Previous	4.1	3.2	2.0	1.7	2.5
Real PCE	3.5	2.7	3.7	2.1	2.0
Previous	3.4	4.0	2.8	2.2	2.4
Real BFI	12.5	8.7	14.3	7.1	4.9
Previous	13.9	11.6	13.1	7.2	6.6
Real residential investment	2.7	-5.1	-9.0	.2	1.1
Previous	2.4	4.6	-1.2	-2.7	-.1

We are projecting that after midyear, real GDP growth will average about 2-1/4 percent at an annual rate over the ensuing six quarters. The overall pace of growth over this span is little changed from that forecast in the January Greenbook, despite the higher path of short-term interest rates built into this projection. Basically, more of the negative effects of the rise in interest rates are now expected to come in the first part of this year, and as noted in the overview, the earlier-than-expected stock and bond rallies and dollar depreciation should help buoy activity as time passes. Admittedly, the steep decline in bond yields has in part been a reaction to a downgrading of economic growth prospects by investors and thus should not be viewed as an entirely favorable, exogenous shock to aggregate demand. Nonetheless, the improvement in household wealth and the lower rates on loans do seem likely to diminish the drags on spending that might otherwise have occurred.

By 1996, growth in final sales is projected to slow to a pace of 2-1/4 percent, as the demand-damping effects of past interest rate increases are augmented by fiscal policy restraint and a stabilization, if not some firming, in lending standards. We expect that businesses will reduce inventory accumulation further over the second half of this year but that stockbuilding will be a neutral factor in 1996.

Consumer spending. In the near term, consumer demand is likely to be boosted a bit by the shifting of tax refunds from the first quarter to the second quarter and by a return to more normal levels of energy expenditures after an unusually warm winter. As a result, real PCE is projected to rise 3-3/4 percent at an annual rate in the second quarter, well in excess of measured disposable income growth. However, we expect that after this bounceback real PCE growth will slow to an annual rate of about 2 percent over the remainder of the projection period.

With the near-term catch-up in spending, the personal saving rate drops back down to a little over 4 percent (where it was on average last year) and remains there through 1996. We think that the surge in spending on consumer durables that pushed the saving rate down earlier in the expansion has ended, although our forecast holds outlays for such goods at a high level. In this regard, we are expecting sales of light motor vehicles to run in the area of 15 million units this year and next--about the same as in 1994 and enough to eat into any remaining pent-up demand for replacement of aging autos. In contrast, spending on appliances and furniture could well slip some, in line with the recent decline in housing activity. Meanwhile, expenditures for nondurables and services are expected to grow moderately through 1996.

Household financial positions will experience some complex cross-currents. Fundamentally, slower GDP growth spells slower employment and income growth, and the assumed fiscal package, on net, could be expected to reduce income growth a bit later this year and in 1996.[5] In addition, debt-service burdens on ARMs and many other loans have begun to rise. On the other hand, the recent stock and bond rallies have added several hundred billion dollars to household wealth, and an increase in interest income received by households holding shorter-term deposits and securities is contributing to income growth. All told, we do not perceive in this financial setting any reason to anticipate major swings, one way or the other, in household spending propensities.

Residential investment. With the long-awaited slowing in housing construction finally visible, we are projecting a steeper decline in residential investment spending in the near term and a somewhat lower level of housing starts over the projection period as a whole. In particular, single-family starts are projected at about 1.07 million to 1.08 million units in 1995 and 1996, a level noticeably below the forecast in the January Greenbook. There is obviously some risk that the recent decline in mortgage rates may stimulate more homebuying in coming quarters. However, our view is that part of the reason housing demand remained robust in 1994 was a tendency for households to buy in advance of expected increases in

5. Our assumed fiscal package includes cuts in federal transfer payments of $17 billion in fiscal 1996 and $37 billion in fiscal 1997. This loss of personal income is partly offset by our assumption of a middle-class tax cut, which reduces tax payments by $6 billion in fiscal 1996 and $12 billion in fiscal 1997.

interest rates. To the extent that this view is correct, the pool of potential homebuyers may have been depleted somewhat, limiting prospects for a near-term resurgence in demand. Moreover, smaller gains in disposable income and weaker job growth should act to offset the favorable effects of the decline in mortgage interest rates.

In the multifamily market, starts are projected to remain near the annual rate of 300,000 units reached late last year. Apartment markets have firmed considerably in some locales, and financing for residential construction appears to be readily available for projects that make economic sense. However, the rise in interest rates since late 1993 evidently is being factored into capitalization rates, putting something of a damper on estimated property values. On balance, our forecast for this sector may have some upward risk, but the dimensions of any positive surprise are likely to be minor--especially in terms of expenditures, because the per-unit outlays for multifamily units are relatively low (roughly $50,000 in nominal terms versus $130,000 for single-family units).

Business fixed investment. Growth of BFI, like consumption, is expected to rebound in the second quarter and then to moderate in the second half of 1995 and in 1996. The near-term strength we have built into the forecast reflects, in part, our doubts about the data on computer orders and shipments. In particular, we are assuming a bounceback in these data in February and March, which sets the stage arithmetically for a sizable increase in computer expenditures in the second quarter. Moreover, orders for other types of equipment have remained quite robust into 1995, and we expect that the strong demand for such machinery, which likely is associated with last year's accelerated output growth and strong profits, will carry through the first half of this year.

We expect that as the year progresses, the deceleration in activity and flattening cash flows will put a damper on equipment demand. Real PDE growth is projected at an annual rate of about 6-3/4 percent in the second half of 1995 and 4-1/2 percent in 1996. After its second-quarter resurgence, spending on office and computing machines likely will increase less rapidly; however, we still anticipate growth at a double-digit pace through 1996, as product innovations and further significant declines in prices continue to stimulate demand. Excluding computers, real PDE is projected to increase at an annual rate of 3 percent in the second half of 1995 and 1-1/4 percent in 1996.

Real investment in nonresidential structures is projected to rise at a robust pace of 9-1/2 percent for 1995 as a whole and then to drop back to a still-healthy growth rate of 6 percent in 1996. Given the strains in many segments of manufacturing, a desire for additional capacity should sustain growth in industrial building for some time. In addition, we anticipate that spending gains for commercial structures will continue at a robust pace over the next several quarters, as lenders and investors apparently remain willing to provide financing for such projects. In contrast, expenditure growth at public utilities is expected to be relatively moderate over the projection period, reflecting concerns about prospects for the industry in light of increasing competition and a changing regulatory environment.

Inventory investment. Inventory investment in the current quarter is predicted to come in at a rate implying an accumulation of stocks at an annual rate of roughly 5 percent in real terms. Such a pace did not create imbalances during 1994, when final sales were rising briskly, but it is unsustainable given the moderation in final demand that we believe is under way. As noted earlier, we have already seen some overhang develop in the motor vehicle sector, and this likely will be corrected in the second quarter, producing a significant slowing in inventory investment in that period. But other businesses are likely to respond as well in subsequent quarters as they perceive a deceleration in their shipments and sales. Moreover, as the current pressures on industrial capacity ease somewhat and supply problems abate, we expect that firms will tend to lower their target stock-to-sales ratios.

Because we are anticipating a rather prompt adjustment of orders and production, we do not expect this inventory mini-cycle to be severe. It seems unlikely that inventory-sales ratios will rise markedly, and stocks should be brought into line with lower sales trends fairly quickly. Thus, after a sizable hit of about 2 percentage points in the second quarter, we expect that inventories will subtract only about half a percentage point in the third quarter and will have no significant effect thereafter.

Government. Federal purchases are projected to decline 4-1/2 percent annually over 1995 and 1996. Real defense purchases are expected to fall 4-1/2 percent in both years, continuing their ongoing decline. Real nondefense spending, which has not yet shown an outright decline from earlier deficit-reduction measures, is expected to fall about 5 percent in 1995 and 4 percent in 1996, reflecting the limits on discretionary spending enacted in OBRA93 and further cutbacks included in the staff's deficit-reduction package.

In general, the fiscal position of state governments has benefited from the strong pace of activity in 1994. However, the financial health of many cities and counties appears less favorable, and even in states with budget surpluses, there is a tendency to favor tax cuts over spending growth. In addition, our assumed federal fiscal package includes reductions in grants to states and localities, which, other things being equal, would tend to slightly depress spending by state and local governments. Thus, on balance, we are projecting that state and local government purchases will rise roughly 2-1/4 percent in 1995 and 1996, a pace not much different from that in 1994.

Net exports. The U.S. external sector is projected, on balance, to make a slight positive contribution to GDP growth over the projection period. To be sure, economic developments in Mexico are expected to reduce export growth sharply and raise imports through the first half of this year. But looking beyond the near term, the slightly lower projected path for the exchange rate, along with overall foreign growth running in excess of the U.S. pace, should tend to boost real net exports. (A fuller discussion of these developments is contained in the International Developments section.)

Labor markets. With output growth slowing to less than its potential rate over the remainder of 1995 and 1996, we project employment gains to taper off and the unemployment rate to move back up to 5-3/4 percent.

In the near term, we expect employment gains to moderate somewhat--averaging about 170,000 per month through the second quarter; this pace is somewhat less robust than the upbeat tone of recent surveys of hiring plans. By the second half of the year, we expect that businesses will turn much more cautious in adding to their work forces, given the slackening in sales growth. Employers may accomplish some of their desired reduction in labor input by shortening workweeks--in particular, trimming overtime hours. However, longer workweeks probably have become a durable feature of the labor market, and the use of temporary workers has lowered the cost of laying off personnel when business slows even temporarily. Payroll growth is projected to slow to a pace of only about 130,000 jobs per month over the second half of 1995 and to 110,000 jobs per month in 1996.

Commensurate with our view of the likely timing of the employment adjustments, productivity growth is projected to slow sharply in the first half of this year and then to grow at about its trend rate of 1-1/2 percent annually thereafter.

STAFF LABOR MARKET PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Output per hour, nonfarm business	1.4	.8	1.4
Previous	1.1	.7	1.5
Nonfarm payroll employment	3.1	1.8	1.1
Previous	3.0	2.2	1.2
Civilian unemployment rate[1]	5.6	5.7	5.8
Previous	5.6	5.4	5.5

1. Average for the fourth quarter.

The continued favorable labor market conditions of recent months apparently are finally drawing new entrants into the labor force. The aggregate participation rate rose to 66.8 percent in January and February, and we expect that the job gains projected for coming months will continue to boost participation into the second quarter. Over the remainder of the projection period, we expect that increases in the participation rate will moderate somewhat, reflecting the downward adjustments to hiring.

Wages and prices. Despite a step-up in price increases at the consumer level in recent months, a broad acceleration of wages and prices is still not in evidence. Nonetheless, with prices of goods at earlier stages of processing still rising rapidly, and with the unemployment rate low and factory utilization high, we expect that consumer prices will experience a more general inflation in coming months. Later this year and in 1996, with the strains on domestic resources easing a little and import prices no longer under pressure from a declining dollar, we see inflation generally contained, albeit around 3-1/4 percent for the core CPI.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Consumer price index	2.6	3.1	3.0
Previous	2.7	2.9	3.1
Excluding food and energy	2.8	3.2	3.2
Previous	2.8	3.2	3.3
ECI for compensation of private industry workers[1]	3.1	3.4	3.7
Previous	3.3	3.7	4.0
Non-oil import prices	3.8	5.5	2.4
Previous	3.7	3.6	2.1

1. December to December.

With regard to labor costs, data available after the January Greenbook was published came in below our expectations, leading us to revise down our estimate of the trend in compensation. The employment cost index for the fourth quarter of 1994 posted an especially small increase, and the most recent readings on average hourly earnings have continued at their 1994 trends. To some extent, the better-than-expected performance in overall labor costs reflects relatively slow benefit growth--particularly for health insurance premiums and workers' compensation. In making our projections, we have assumed that benefit growth will continue to be restrained; however, given that some of the recent slowing reflects one-time adjustments, we do not expect to see a further deceleration in benefits in 1995 and 1996.[6] Reasons for the slow pace of wage growth are more difficult to identify, but anecdotal evidence suggests that continued job insecurity among workers may be reducing wage demands despite the low level of the unemployment rate; at any rate, we have lowered our outlook for wages as well. Overall, the employment cost index is now projected to rise 3.4 percent in 1995 and 3.7 percent in 1996, roughly 1/3 of 1 percentage point less than projected in the January Greenbook.

We have revised up slightly our CPI forecast for the first half of this year. For the most part, the near-term revision reflects the recent data on consumer prices; in addition, the floods in California are expected to exert some upward pressures on food prices in coming months. Still uncertain is how much of the increase in materials prices will eventually show through to the finished goods level. To date, such a pass-through evidently has been offset by low unit labor costs, partly because of sizable increases in manufacturing productivity. However, with productivity gains unlikely to match their pace in 1994 and with materials prices anticipated to rise fairly rapidly, it seems likely that increases in finished goods prices will pick up a bit in coming months in an environment of still-high resource utilization.

Over the remainder of the projection period, core CPI inflation is little changed from the January Greenbook, running at an annual rate of about 3-1/4 percent through 1996. With food and energy prices expected to remain on the moderate side, the total CPI is

6. Examples of one-time reductions in employer health insurance costs include a shift from a fee-for-service plan to a managed care system or an increase in cost-sharing by employees. For workers' compensation, changing eligibility requirements for claims--as was done in Texas and California--would generally be a one-time cost reduction.

expected to rise a bit less than the core measure.[7] It should be noted, however, that the flat inflation picture for the next two years is, in a sense, deceptive: Our view is that the underlying trend in the inflation rate will have a slight upward tilt into 1997, given that resource utilization rates will still be on the high side through next year. But the effects of the dollar's depreciation in recent quarters are such as to raise the inflation rate a bit above its underlying trend this year and then to be a neutral factor in 1996.

Alternative Simulations

To provide additional background information for the choice of policy options, four alternative simulations were run with the Board staff's macroeconomic models. The first two simulations are based alternatively on the assumption of an increase or decrease of 100 basis points in the funds rate by the third quarter, with the rate then held at the new level through 1996.

The results of these simulations are presented in the table below. Under the tighter policy assumption, a more significant slowing in GDP growth results in an unemployment rate that is 0.4 percentage point higher by the end of 1996 and a decline in the inflation rate. Under the easier policy assumption, the unemployment rate edges back down to its current level, and the inflation rate drifts up more noticeably. In part, the effects of the alternative interest rate paths occur through endogenous movements in the exchange rate; in these simulations, the G-10 exchange rate changes by approximately 5 percent by the end of 1996.

7. Crude oil prices are not expected to change much over the projection period. The spot price of West Texas intermediate edges up to $18.50 per barrel by the third quarter and remains at that level through 1996.

ALTERNATIVE FEDERAL FUNDS RATE SIMULATIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Real GDP			
Baseline	4.0	2.1	2.3
Higher funds rate	...	1.9	1.5
Lower funds rate	...	2.3	3.1
Civilian unemployment rate[1]			
Baseline	5.6	5.7	5.8
Higher funds rate	...	5.8	6.1
Lower funds rate	...	5.6	5.4
CPI excluding food and energy			
Baseline	2.8	3.2	3.2
Higher funds rate	...	3.1	2.9
Lower funds rate	...	3.3	3.5

1. Average for the fourth quarter.

Given the recent volatility of the dollar on foreign exchange markets, two alternative simulations for the exchange rate were also run with the staff's macroeconomic models. These simulations alternatively assumed a 10 percent higher and lower exchange value of the dollar in terms of the currencies of the other G-10 countries, using multilateral trade weights, by the third quarter, with the federal funds rate held unchanged.[8] Under the assumption of a stronger dollar, the slowing in GDP growth is more pronounced as real net exports deteriorate through 1996, leading to a larger rise in the unemployment rate and a significant reduction in the inflation rate, relative to the baseline. In the case of a weaker dollar, real GDP is boosted by the improvement in real net exports, but inflation moves higher.

8. In essence, these simulations assume that an exogenous shift in portfolio preferences generates the exchange rate movement rather than a change in U.S. policy.

ALTERNATIVE EXCHANGE RATE SIMULATIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Real GDP			
Baseline	4.0	2.1	2.3
Stronger dollar	...	1.8	1.6
Weaker dollar	...	2.4	3.1
Civilian unemployment rate[1]			
Baseline	5.6	5.7	5.8
Stronger dollar	...	5.8	6.2
Weaker dollar	...	5.6	5.4
CPI			
Baseline	2.6	3.2	3.2
Stronger dollar	...	2.7	2.6
Weaker dollar	...	3.7	3.9

1. Average for the fourth quarter.

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ERRATUM

The attached table replaces the table on page I-21 of the Greenbook Part 1 labeled: "Alternative Exchange Rate Simulations." In the revised table, the third panel correctly reads, "CPI excluding food and energy "

STAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	1/25/95	3/22/95	1/25/95	3/22/95	1/25/95	3/22/95	1/25/95	3/22/95	1/25/95	3/22/95
ANNUAL										
1992[2]	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4	7.4
1993[2]	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994[2]	6.3	6.2	4.1	4.0	2.7	2.7	2.6	2.6	6.1	6.1
1995	5.7	5.4	3.2	2.9	3.0	3.0	3.0	3.1	5.4	5.6
1996	4.6	4.7	2.2	2.3	2.9	2.9	3.0	3.0	5.5	5.7
QUARTERLY										
1993 Q1[2]	4.4	4.4	1.2	1.2	4.2	4.2	2.8	3.1	7.0	7.0
Q2[2]	4.2	4.2	2.4	2.4	2.4	2.4	3.1	2.8	7.0	7.0
Q3[2]	3.8	3.8	2.7	2.7	2.0	2.0	2.0	1.7	6.7	6.7
Q4[2]	7.7	7.7	6.3	6.3	2.4	2.4	3.1	3.4	6.5	6.5
1994 Q1[2]	6.1	6.1	3.3	3.3	3.1	3.1	1.9	2.2	6.6	6.6
Q2[2]	7.2	7.2	4.1	4.1	2.9	2.9	2.8	2.5	6.2	6.2
Q3[2]	6.2	6.2	4.0	4.0	3.0	3.0	3.6	3.6	6.0	6.0
Q4[2]	6.8	5.8	5.0	4.6	2.5	2.6	2.4	2.2	5.6	5.6
1995 Q1	6.4	5.8	3.2	2.5	3.5	3.5	2.9	3.2	5.3	5.5
Q2	4.5	4.1	2.0	1.7	2.9	2.7	2.9	3.1	5.3	5.5
Q3	4.1	4.4	1.7	2.1	2.8	2.7	3.0	3.1	5.4	5.6
Q4	4.0	4.6	1.7	2.3	2.8	2.7	3.0	3.0	5.4	5.7
1996 Q1	4.7	4.9	2.0	2.3	3.1	3.1	3.0	3.0	5.5	5.7
Q2	5.0	4.8	2.5	2.4	2.9	2.8	3.1	3.0	5.5	5.7
Q3	5.2	4.8	2.6	2.3	3.0	2.8	3.1	3.0	5.5	5.7
Q4	5.2	4.7	2.6	2.2	3.0	2.9	3.2	3.0	5.5	5.8
TWO-QUARTER[3]										
1993 Q2[2]	4.3	4.3	1.8	1.8	3.3	3.3	3.1	3.0	-.3	-.3
Q4[2]	5.7	5.7	4.5	4.5	2.2	2.2	2.4	2.5	-.5	-.5
1994 Q2[2]	6.6	6.6	3.7	3.7	3.0	3.0	2.4	2.3	-.3	-.3
Q4[2]	6.5	6.0	4.5	4.3	2.7	2.8	2.9	2.9	-.6	-.6
1995 Q2	5.4	4.9	2.6	2.1	3.2	3.1	2.9	3.1	-.3	-.1
Q4	4.1	4.5	1.7	2.2	2.8	2.7	3.0	3.0	.1	.2
1996 Q2	4.9	4.9	2.3	2.4	3.0	3.0	3.1	3.0	.1	.0
Q4	5.2	4.7	2.6	2.2	3.0	2.9	3.1	3.0	.0	.1
FOUR-QUARTER[4]										
1992 Q4[2]	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	.3	.3
1993 Q4[2]	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4[2]	6.6	6.3	4.1	4.0	2.8	2.9	2.7	2.6	-.9	-.9
1995 Q4	4.8	4.7	2.2	2.1	3.0	2.9	2.9	3.1	-.2	.1
1996 Q4	5.0	4.8	2.5	2.3	3.0	2.9	3.1	3.0	.1	.1

1. For all urban consumers.
2. Actual.
3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.
4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

March 22, 1995

Item	Unit[1]	1988	1989	1990	1991	1992	1993	1994	Projected 1995	Projected 1996
EXPENDITURES										
Nominal GDP	Bill. $	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6736.1	7096.7	7428.9
Real GDP	Bill. 87$	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5342.4	5499.8	5623.6
Real GDP	% change	3.3	1.6	.2	.3	3.7	3.1	4.0	2.1	2.3
Gross domestic purchases		2.5	.9	-.4	-.1	4.1	3.9	4.5	2.2	2.0
Final sales		4.2	1.5	1.2	-.4	3.8	3.0	3.3	2.7	2.3
Private dom. final purch.		4.2	.5	-.1	-.8	5.1	5.0	4.8	3.4	2.4
Personal cons. expend.		4.2	1.2	.7	.0	4.2	3.0	3.5	2.7	2.0
Durables		8.5	-.5	-.8	-1.3	9.6	9.0	8.6	1.3	1.2
Nondurables		3.2	1.2	-.1	-1.6	3.2	1.3	3.2	3.0	2.0
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.3	2.9	2.2
Business fixed invest.		5.5	-.4	.7	-6.2	6.7	16.0	12.5	9.2	4.9
Producers' dur. equip.		9.1	-1.7	2.9	-3.2	11.0	21.3	15.1	9.2	4.6
Nonres. structures		-1.2	2.3	-3.9	-12.4	-3.4	1.6	4.2	9.4	6.0
Res. structures		.9	-7.7	-15.2	.7	17.0	8.1	2.7	-3.5	1.1
Exports		13.5	11.3	6.7	8.1	5.0	5.8	11.6	6.7	9.2
Imports		3.6	2.6	.4	4.0	8.6	12.4	14.1	6.5	6.3
Government purchases		.2	2.0	3.3	-.8	.7	-1.0	-.9	-.2	.0
Federal		-3.4	-.6	2.8	-3.2	.8	-6.9	-5.7	-4.5	-4.4
Defense		-3.2	-1.5	1.5	-7.0	-1.3	-9.0	-8.3	-4.4	-4.5
State and local		2.9	4.0	3.6	.8	.6	3.0	2.0	2.2	2.3
Change in bus. invent.	Bill. 87$	19.9	29.8	5.7	-1.1	2.5	15.3	47.4	31.3	19.3
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	18.5	40.4	28.6	17.8
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-110.6	-120.2	-106.4
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	6.3	4.7	4.8
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	105.2	107.9	109.4	108.3	108.6	110.5	113.4	116.3	117.7
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.6	5.7
Industrial prod. index	% change	3.2	-.1	-.2	.2	4.0	3.6	6.0	3.2	2.9
Capacity util. rate-mfg.	%	83.6	83.2	81.3	78.0	79.2	80.9	83.4	84.4	83.3
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.46	1.37	1.40
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	15.07	14.96	15.01
Auto sales in U.S.		10.63	9.91	9.50	8.39	8.35	8.72	9.24	9.03	9.01
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.28	7.26	7.28
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.96	1.77	1.73
INCOME AND SAVING										
Nominal GNP	Bill. $	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6724.6	7066.5	7386.5
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	6.0	4.6	4.7
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.8	5.4	4.9
Real disposable income		3.2	1.1	1.1	.9	5.0	.5	4.4	2.2	2.0
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	4.1	4.3	4.2
Corp. profits, IVA&CCAdj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	6.6	-.3	1.6
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.1	8.0	7.8
Federal surpl./def.	Bill. $	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-157.5	-140.3	-142.2
State/local surpl./def.		38.4	44.8	25.1	17.0	24.8	26.3	26.0	33.3	37.4
Ex. social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-39.5	-31.2	-26.6
PRICES AND COSTS										
GDP implicit deflator	% change	4.2	4.4	4.5	3.3	2.6	1.8	2.3	2.5	2.4
GDP fixed-wt. price index		4.2	4.4	4.6	3.6	3.2	2.8	2.9	2.9	2.9
Gross domestic purchases fixed-wt. price index		4.1	4.4	5.2	2.9	3.2	2.5	2.9	3.1	2.9
CPI		4.3	4.6	6.3	3.0	3.1	2.7	2.6	3.1	3.0
Ex. food and energy		4.5	4.4	5.3	4.4	3.5	3.1	2.8	3.2	3.2
ECI, hourly compensation[2]		4.8	4.8	4.6	4.4	3.5	3.6	3.1	3.4	3.7
Nonfarm business sector										
Output per hour		.5	-1.4	.4	2.3	3.2	1.8	1.4	.8	1.4
Compensation per hour		3.8	3.1	6.2	4.7	5.1	2.4	3.3	3.6	3.8
Unit labor cost		3.3	4.6	5.7	2.3	1.9	.6	1.9	2.8	2.4

1. Percent changes are from fourth quarter to fourth quarter. 2. Private-industry workers.

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

March 22, 1995

Item	Unit	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2
EXPENDITURES											
Nominal GDP	Bill. $	5896.8	5971.3	6043.6	6169.3	6235.9	6299.9	6359.2	6478.1	6574.7	6689.9
Real GDP	Bill. 87$	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	4.1
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.6
Final sales		4.8	1.5	3.5	5.6	.2	2.4	3.2	6.4	2.2	1.5
Private dom. final purch.		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.7
Personal cons. expend.		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.3
Durables		15.5	.4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	.4
Nondurables		4.2	-.7	2.7	6.9	-1.6	1.6	2.8	2.4	3.8	2.2
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.1
Business fixed invest.		-.1	15.0	5.0	7.5	15.1	15.6	12.2	21.1	10.9	9.2
Producers' dur. equip.		-1.3	22.7	11.0	12.9	20.0	21.6	16.2	27.5	18.6	6.1
Nonres. structures		2.9	-1.6	-8.9	-5.5	2.5	.3	.5	3.3	-11.8	20.6
Res. structures		22.4	22.7	.8	23.8	5.3	-7.6	9.4	28.2	10.0	7.0
Exports		6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6
Imports		6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9
Government purchases		1.5	-3.0	3.4	.9	-5.9	1.2	1.1	-.1	-4.9	-1.2
Federal		-1.3	-4.8	8.6	1.1	-15.4	-3.6	-3.0	-5.0	-10.3	-7.9
Defense		-7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-4.1
State and local		3.3	-1.8	.1	.8	.9	4.4	3.7	2.9	-1.4	2.9
Change in bus. invent.	Bill. 87$	-6.3	4.2	5.2	6.6	18.5	18.9	13.0	10.8	25.4	59.2
Nonfarm		-14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.7
Net exports		-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	7.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.1	108.4	108.7	109.1	109.7	110.3	110.8	111.4	112.0	113.0
Unemployment rate[1]	%	7.3	7.5	7.5	7.3	7.0	7.0	6.7	6.5	6.6	6.2
Industrial prod. index	% change	.9	5.8	3.4	6.2	5.1	.7	3.3	5.3	7.1	6.0
Capacity util. rate-mfg.[1]	%	78.4	79.1	79.4	80.1	80.8	80.6	80.7	81.4	82.3	83.1
Housing starts	Millions	1.24	1.15	1.18	1.23	1.16	1.25	1.31	1.47	1.36	1.44
Light Motor Vehicle Sales		12.46	12.81	12.71	13.22	13.23	14.11	13.69	14.53	15.45	14.76
Auto sales in U.S.		8.33	8.41	8.24	8.43	8.32	8.93	8.65	8.97	9.45	9.15
North American prod.		6.12	6.25	6.25	6.40	6.36	6.87	6.68	7.08	7.44	7.16
Other		2.21	2.16	1.99	2.03	1.96	2.07	1.97	1.89	2.00	1.99
INCOME AND SAVING											
Nominal GNP	Bill. $	5907.7	5979.1	6049.4	6167.0	6243.9	6303.3	6367.8	6476.2	6574.0	6682.5
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.8
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.7
Real disposable income		5.9	2.1	1.7	10.6	-7.4	4.7	.8	4.3	3.4	3.5
Personal saving rate[1]	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	4.1
Corp. profits, IVA&CCAdj	% change	18.8	.5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	33.6
Profit share of GNP[1]	%	7.0	6.9	6.0	7.0	7.1	7.5	7.7	8.2	7.7	8.2
Federal govt. surpl./def.	Bill. $	-279.9	-284.8	-293.9	-272.1	-283.5	-237.0	-224.9	-220.1	-176.2	-145.1
State/local surpl./def.		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	27.0
Ex. social ins. funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-38.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.7	1.3	2.7	3.3	1.6	1.0	1.3	2.9	2.9
GDP fixed-wt. price index		3.9	3.3	2.7	2.8	4.2	2.4	2.0	2.4	3.1	2.9
Gross domestic purchases fixed-wt. price index		3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.2
CPI		2.9	2.9	3.2	3.5	3.1	2.8	1.7	3.4	2.2	2.5
Ex. food and energy		3.7	3.3	3.3	3.6	3.5	3.5	2.4	2.9	2.9	2.9
ECI, hourly compensation[2]		4.0	2.9	2.8	3.9	4.2	3.5	3.4	3.4	3.0	3.4
Nonfarm business sector											
Output per hour		4.2	1.9	2.8	3.8	-2.0	.4	4.0	4.9	2.9	-2.1
Compensation per hour		5.7	4.6	5.8	4.5	2.1	2.4	2.8	2.4	6.1	.7
Unit labor cost		1.4	2.6	2.9	.6	4.1	2.0	-1.2	-2.4	3.1	2.9

1. Not at an annual rate.
2. Private-industry workers.

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REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

March 22, 1995

				Projected							
		1994		1995				1996			
Item	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	6791.7	6888.1	6985.9	7056.5	7132.4	7212.2	7299.6	7386.0	7472.4	7557.8
Real GDP	Bill. 87$	5367.0	5427.2	5460.3	5483.2	5512.0	5543.4	5575.1	5608.3	5640.2	5670.8
Real GDP	% change	4.0	4.6	2.5	1.7	2.1	2.3	2.3	2.4	2.3	2.2
Gross domestic purchases		4.4	3.9	3.2	2.0	1.8	1.9	1.9	2.1	2.0	1.9
Final sales		4.3	5.3	1.9	3.7	2.8	2.4	2.3	2.4	2.4	2.2
Private dom. final purch.		4.1	6.4	3.2	4.7	3.0	2.6	2.5	2.5	2.4	2.2
Personal cons. expend.		3.1	5.0	2.7	3.7	2.1	2.1	1.8	2.0	2.1	1.9
Durables		5.8	20.3	-1.0	5.0	.3	1.0	-.5	1.5	2.4	1.7
Nondurables		3.3	3.3	4.1	3.1	2.6	2.2	2.2	2.0	1.9	1.8
Services		2.2	2.1	3.0	3.8	2.4	2.3	2.3	2.2	2.2	2.0
Business fixed invest.		14.1	16.1	8.7	14.3	8.0	6.1	6.2	5.1	4.2	4.1
Producers' dur. equip.		18.1	18.2	7.0	16.5	8.0	5.5	5.4	4.6	4.2	4.1
Nonres. structures		1.6	9.3	14.9	6.9	7.9	8.3	8.9	6.7	4.2	4.1
Res. structures		-6.0	.7	-5.1	-9.0	.1	.4	.7	1.2	1.1	1.4
Exports		14.8	20.1	3.3	7.3	7.8	8.6	8.7	9.2	9.3	9.5
Imports		15.6	12.8	8.1	8.6	4.8	4.8	5.3	6.4	6.7	7.0
Government purchases		6.7	-3.8	-.3	.7	-.1	-1.2	-1.0	.2	.5	.3
Federal		10.9	-13.6	-4.9	-2.4	-4.8	-6.0	-7.0	-3.9	-3.2	-3.4
Defense		12.8	-22.0	-4.5	-3.3	-6.7	-3.0	-4.7	-5.3	-4.2	-3.7
State and local		4.3	2.3	2.2	2.5	2.5	1.5	2.2	2.3	2.4	2.2
Change in bus. invent.	Bill. 87$	57.1	48.1	56.3	29.3	20.6	18.8	19.4	19.6	18.8	19.2
Nonfarm		47.4	40.4	52.3	26.3	18.6	17.3	17.9	18.1	17.3	17.7
Net exports		-117.0	-109.6	-119.8	-124.5	-120.8	-115.5	-111.0	-107.8	-104.8	-101.8
Nominal GDP	% change	6.2	5.8	5.8	4.1	4.4	4.6	4.9	4.8	4.8	4.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	113.9	114.8	115.6	116.1	116.5	116.9	117.2	117.6	117.9	118.2
Unemployment rate[1]	%	6.0	5.6	5.5	5.5	5.6	5.7	5.7	5.7	5.7	5.8
Industrial prod. index	% change	4.9	5.9	6.7	1.2	2.1	2.8	3.1	3.0	2.9	2.8
Capacity util. rate-mfg[1]	%	83.6	84.5	85.1	84.5	84.1	83.8	83.6	83.4	83.2	82.9
Housing starts	Millions	1.47	1.51	1.34	1.37	1.38	1.38	1.39	1.39	1.40	1.40
Light Motor Vehicle Sales		14.65	15.44	14.94	15.14	14.88	14.87	14.82	14.92	15.10	15.18
Auto sales in U.S.		9.09	9.25	8.88	9.20	9.05	8.98	8.95	8.98	9.05	9.05
North American prod.		7.09	7.42	7.09	7.38	7.30	7.25	7.25	7.25	7.30	7.30
Other		2.01	1.83	1.79	1.82	1.75	1.73	1.70	1.73	1.75	1.75
INCOME AND SAVING											
Nominal GNP	Bill. $	6779.6	6862.1	6961.0	7026.0	7103.8	7175.4	7262.1	7343.3	7431.6	7509.1
Nominal GNP	% change	5.9	5.0	5.9	3.8	4.5	4.1	4.9	4.5	4.9	4.2
Nominal personal income		5.4	8.9	7.5	4.9	4.0	5.3	5.1	4.9	4.1	5.3
Real disposable income		3.1	7.7	4.0	.2	2.4	2.4	2.9	.4	2.4	2.3
Personal saving rate[1]	%	4.1	4.6	4.9	4.1	4.1	4.2	4.4	4.1	4.1	4.2
Corp. profits, IVA&CCAdj	% change	7.2	9.6	-1.6	-2.5	4.9	-1.9	.2	-.1	12.3	-5.3
Profit share of GNP[1]	%	8.2	8.3	8.1	8.0	8.0	7.9	7.8	7.7	7.9	7.7
Federal govt. surpl./def.	Bill. $	-154.0	-154.8	-145.5	-129.1	-138.0	-148.7	-150.0	-130.5	-137.3	-150.8
State/local surpl./def.		23.9	27.9	31.0	34.3	36.1	31.8	33.7	35.8	40.3	39.9
Ex. social ins. funds		-41.4	-37.2	-33.9	-30.3	-28.2	-32.4	-30.4	-28.2	-23.7	-24.1
PRICES AND COSTS											
GDP implicit deflator	% change	1.9	1.3	3.3	2.4	2.2	2.2	2.6	2.4	2.4	2.4
GDP fixed-wt. price index		3.0	2.6	3.5	2.7	2.7	2.7	3.1	2.8	2.8	2.9
Gross domestic purchases fixed-wt. price index		3.5	2.5	3.5	3.0	2.9	2.8	3.1	2.8	2.8	2.8
CPI		3.6	2.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0	3.0
Ex. food and energy		3.1	2.3	3.5	3.2	3.1	3.1	3.2	3.2	3.2	3.2
ECI, hourly compensation[2]		3.3	2.6	3.5	3.1	3.4	3.4	3.6	3.6	3.7	3.7
Nonfarm business sector											
Output per hour		3.2	1.7	.3	.5	1.2	1.2	1.4	1.5	1.4	1.3
Compensation per hour		3.1	3.4	4.2	3.1	3.6	3.6	4.1	3.7	3.8	3.8
Unit labor cost		-.1	1.7	3.9	2.6	2.4	2.4	2.6	2.1	2.3	2.4

1. Not at an annual rate. 2. Private-industry workers.

Strictly Confidential (FR)
Class II FOMC

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS[1]
(Billions of 1987 dollars)

March 22, 1995

Item	1992				1993				1994					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993	1994
Real GDP	37.7	29.0	43.0	70.2	14.6	30.1	34.0	78.6	43.1	53.0	13.6	179.9	157.3	209.2
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	60.7	-6.4	201.6	201.0	236.6
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	19.2	-20.7	186.8	153.1	171.9
Private dom. final purch.	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	29.8	-32.6	202.2	205.9	207.8
Personal cons. expend.	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	11.5	-.6	138.1	102.8	122.9
Durables	15.7	.4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	.5	-5.5	41.1	42.0	43.8
Nondurables	10.7	-1.8	7.1	17.8	-4.2	4.3	7.4	6.3	10.3	6.0	-17.1	33.8	13.8	34.4
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.1	22.1	63.1	47.0	44.7
Business fixed invest.	-.1	18.0	6.4	9.7	19.4	20.7	16.9	29.3	16.4	14.3	-33.3	34.0	86.3	78.7
Producers' dur. equip.	-1.2	18.6	9.9	11.8	18.4	20.7	16.6	28.2	20.9	7.5	-11.9	39.1	83.9	72.4
Nonres. structures	1.1	-.6	-3.5	-2.1	.9	.1	.2	1.2	-4.6	6.9	-21.4	-5.1	2.4	6.3
Res. structures	9.2	9.8	.4	10.8	2.7	-4.1	4.7	13.5	5.4	3.9	1.2	30.2	16.8	6.1
Change in bus. invent.	-19.8	10.5	1.0	1.4	11.9	.4	-5.9	-2.2	14.6	33.8	34.4	-6.9	4.2	37.3
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.6	33.3	-8.3	4.4	29.7
Farm	9.1	-1.8	-2.8	-3.1	-1.5	-2.7	-4.0	8.0	3.2	4.2	1.0	1.4	-.2	7.6
Net exports	-1.0	-16.2	-4.8	.4	-19.1	-11.7	-17.0	4.1	-21.8	-7.8	19.9	-21.6	-43.7	-27.4
Exports	8.4	2.1	7.4	10.2	-1.5	11.0	-4.9	29.9	-5.6	24.3	42.2	28.1	34.5	72.6
Imports	9.4	18.3	12.3	9.9	17.5	22.8	12.0	25.8	16.2	32.0	22.2	49.9	78.1	100.0
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.8	2.5	-.3	-11.6	-2.8	-8.0	6.2	-9.1	-8.5
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	-12.4	2.9	-25.9	-19.9
Defense	-4.9	-3.4	7.1	-2.2	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	-19.9	-3.4	-23.7	-19.7
Nondefense	3.8	-1.2	.6	3.2	-1.3	-1.8	3.2	-2.3	.8	-4.5	7.4	6.4	-2.2	-.1
State and local	4.5	-2.5	.1	1.1	1.3	6.1	5.2	4.2	-2.1	4.1	4.6	3.2	16.8	11.4

1. Annual changes are from Q4 to Q4.

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS[1]
(Billions of 1987 dollars)

Item	1994 Q3	1994 Q4	Projected 1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1993	1994	Projected 1995	Projected 1996
Real GDP	52.9	60.2	33.1	22.9	28.8	31.4	31.7	33.2	31.9	30.6	157.3	209.2	116.2	127.4
Gross domestic purchases	58.2	52.8	43.3	27.6	25.1	26.1	27.2	29.9	29.0	27.6	201.0	236.6	122.2	113.6
Final sales	55.1	69.1	24.9	49.9	37.5	33.2	31.1	33.0	32.8	30.2	153.1	171.9	145.5	127.0
Private dom. final purch.	45.4	70.7	35.9	52.9	34.1	30.7	29.0	29.3	28.7	26.5	205.9	207.8	153.5	113.5
Personal cons. expend.	26.9	44.4	24.1	33.7	19.6	19.1	17.0	18.9	19.9	17.6	102.8	122.9	96.5	73.3
Durables	7.4	25.0	-1.4	6.8	.4	1.5	-.8	2.1	3.3	2.4	42.0	43.8	7.3	7.0
Nondurables	9.1	9.0	11.2	8.6	7.3	6.2	6.3	5.8	5.6	5.2	13.8	34.4	33.4	22.9
Services	10.4	10.3	14.3	18.3	11.8	11.4	11.5	11.0	11.0	10.0	47.0	44.7	55.8	43.4
Business fixed invest.	22.1	25.9	14.9	24.5	14.5	11.3	11.6	9.8	8.2	8.1	86.3	78.7	65.2	37.7
Producers' dur. equip.	21.5	22.5	9.4	21.8	11.4	8.0	8.0	6.9	6.4	6.3	83.9	72.4	50.5	27.6
Nonres. structures	.6	3.4	5.5	2.7	3.1	3.3	3.7	2.8	1.8	1.8	2.4	6.3	14.6	10.1
Res. structures	-3.6	.4	-3.0	-5.3	.0	.2	.4	.7	.6	.8	16.8	6.1	-8.0	2.4
Change in bus. invent.	-2.1	-9.0	8.2	-27.0	-8.7	-1.8	.6	.2	-.8	.4	4.2	37.3	-29.3	.3
Nonfarm	-4.3	-7.0	11.9	-26.0	-7.7	-1.3	.6	.2	-.8	.4	4.4	29.7	-23.1	.3
Farm	2.2	-2.0	-3.7	-1.0	-1.0	-.5	.0	.0	.0	.0	-.2	7.6	-6.2	.0
Net exports	-5.2	7.4	-10.2	-4.7	3.7	5.3	4.5	3.3	3.0	3.0	-43.7	-27.4	-5.9	13.7
Exports	22.6	31.3	5.7	12.5	13.5	15.2	15.7	16.8	17.4	18.3	34.5	72.6	46.9	68.3
Imports	27.9	23.9	15.9	17.2	9.8	9.9	11.2	13.6	14.4	15.3	78.1	100.0	52.9	54.5
Government purchases	14.9	-9.0	-.8	1.7	-.3	-2.7	-2.4	.4	1.1	.7	-9.1	-8.5	-2.1	-.2
Federal	8.8	-12.3	-4.1	-2.0	-4.0	-4.9	-5.7	-3.1	-2.5	-2.6	-25.9	-19.9	-15.0	-13.9
Defense	6.9	-14.0	-2.5	-1.8	-3.7	-1.6	-2.5	-2.8	-2.2	-1.9	-23.7	-19.7	-9.6	-9.4
Nondefense	1.8	1.8	-1.7	-.2	-.3	-3.3	-3.2	-.3	-.3	-.7	-2.2	-.1	-5.5	-4.5
State and local	6.1	3.3	3.3	3.7	3.7	2.2	3.3	3.5	3.6	3.3	16.8	11.4	12.9	13.7

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

STAFF PROJECTIONS OF FEDERAL SECTOR ACCOUNTS AND RELATED ITEMS
(Billions of dollars except as noted)

March 22, 1995

Item	Fiscal year				1994				1995				1996			
	1993[a]	1994[a]	1995	1996	Q1[a]	Q2[a]	Q3[a]	Q4[b]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1153	1257	1357	1405	289	363	318	308	306	407	337	320	302	429	354	333
Outlays[1]	1409	1461	1526	1586	348	363	371	380	374	385	387	394	401	395	396	412
Surplus/deficit[1]	-255	-203	-169	-181	-59	0	-53	-73	-68	22	-50	-74	-99	34	-42	-79
On-budget	-301	-259	-237	-242	-66	-33	-55	-86	-79	-17	-56	-81	-106	-6	-48	-83
Off-budget	46	56	69	60	8	33	2	13	11	39	6	6	7	40	6	4
Surplus excluding deposit insurance[2]	-283	-211	-188	-193	-65	3	-57	-77	-74	19	-56	-76	-103	33	-47	-78
Means of financing																
Borrowing	249	185	186	184	51	8	37	60	63	7	57	54	75	14	41	57
Cash decrease	6	17	-24	0	5	-6	15	9	12	-30	-16	25	20	-45	0	25
Other[3]	0	1	8	-3	2	-2	1	5	-7	1	9	-5	4	-4	1	-3
Cash operating balance, end of period	53	36	60	60	45	51	36	27	14	44	60	35	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1242	1355	1461	1526	1338	1381	1389	1413	1456	1489	1487	1502	1509	1544	1548	1562
Expenditures	1497	1529	1603	1667	1514	1526	1543	1568	1601	1618	1625	1650	1658	1675	1685	1712
Purchases	447	439	434	425	438	435	444	432	436	435	432	427	426	424	423	421
Defense	307	296	286	282	292	292	301	285	288	287	284	283	284	282	280	279
Nondefense	140	144	148	143	146	144	144	147	148	148	148	144	142	142	142	142
Other expenditures	1049	1090	1169	1242	1076	1091	1099	1136	1164	1183	1193	1223	1232	1251	1262	1291
Surplus/deficit	-254	-174	-142	-141	-176	-145	-154	-155	-145	-129	-138	-148	-150	-130	-137	-150
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-211	-164	-165	-162	-158	-140	-161	-176	-170	-153	-160	-170	-170	-151	-157	-169
Change in HEB, percent of potential GDP	-.1	-.7	0	0	-.6	-.3	.3	.2	-.1	-.2	.1	.1	0	-.3	.1	.2
Fiscal impetus (FI), percent, cal. year	-4.1	-7.3	-6.3	-9.3	-4.2	-4.3	3.4	-3.9	-2.1	-1.4	-.5	-2.7	-5.1	-1.8	.1	-2.3

1. OMB's February 1995 deficit estimates are $193 billion in FY95 and $197 billion in FY96. CBO's March 1995 deficit estimates are $175 billion in FY95 and $210 billion in FY96. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's February 1995 deficit estimates, excluding deposit insurance spending, are $205 billion in FY95 and $203 billion in FY96. CBO's March 1995 deficit estimates, excluding deposit insurance spending, are $191 billion in FY95 and $218 billion in FY96.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.4 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in 1987 dollars), scaled by real federal purchases. For change in HEB and FI, negative values indicate restraint.

a--Actual.
b--Preliminary.

Recent Developments

Expectations that monetary tightening is near an end, or at least on hold for awhile, grew over the intermeeting period as economic reports provided evidence of a slowing in the pace of the expansion. Remarks by System officials suggested that the FOMC might be taking a similar view. Though these developments were not welcomed by the foreign exchange markets, they nonetheless did help to lift U.S. securities prices.

Despite the System tightening at the last FOMC meeting, short-term interest rates have inched lower on net since the end of January, while bond markets have rallied appreciably; yields on intermediate- and long-term Treasury securities have dropped 30 to 55 basis points. Stock prices have soared to record highs, buoyed by the decline in bond rates and by surprising strength in fourth-quarter earnings reports. The recent signs of moderating growth in real activity apparently did not spark concerns about erosion of credit quality, as yield spreads on private debt are still near historical lows.

All the monetary aggregates slowed in February, with M1 and M2 contracting slightly. Among M2 components, only small time deposits, whose rates have risen notably relative to Treasuries in recent weeks, showed strength last month--but not enough to offset declines in savings and other liquid deposits. Within M3, the weakness in retail deposits was offset by continued rapid growth in non-M2 components, as institutions used large time deposits and other managed liabilities to support loan growth. Data for early March point to some strengthening in the aggregates, in part the result of accelerating growth in small time deposits.

Bank credit growth slowed in February to a rate of about 4 percent, less than half its January pace, as liquidations of securities increased and loan growth moderated. Though slowing, loans continued to rise at a rate of more than 10 percent, bolstered by robust business borrowing. However, there was a marked deceleration in consumer loans, consistent with the reduced pace of spending for autos and consumer durables; that softening in sales and loan growth likely was encouraged by the sizable rise in bank interest charges on auto and personal loans since last fall, a rise that exceeded that of market interest rates. Consumer lending was also held down by banks' reluctance to extend credit in anticipation of tax refunds after the IRS refused to confirm in advance the validity of tax-refund claims. Preliminary data for March suggest some bounceback in consumer loans and some slowing in business lending. Real estate loans expanded about 9 percent at an annual rate in February, half their rapid January pace, and appear to have slowed a bit further in early March.

Debt growth of domestic nonfinancial sectors seems to be well maintained in the first quarter, buoyed by Treasury and business borrowing. In the federal sector, a somewhat smaller first-quarter fiscal deficit (not seasonally adjusted) has been financed largely by borrowing from the public through the issuance of coupon securities and by a drawdown of the Treasury's cash balance.

In the business sector, nonfinancial corporations stepped up their bond issuance in February: In several cases, firms were taking advantage of lower bond yields to fund commercial paper issued earlier to finance mergers or acquisitions. With the surge in bank borrowing since year-end and continued heavy borrowing from finance companies and in the commercial paper market, this pickup suggests that business debt growth is proceeding well above its fourth-quarter pace. Credit seems readily available for most firms, with inflows to corporate bond mutual funds strengthening in recent weeks and survey data revealing a slight narrowing of business loan rates relative to market yields. The upward march of stock prices encouraged more gross equity issuance by nonfinancial corporations over the intermeeting period, but share retirements have continued to outpace new issuance. The volume of merger-related share retirements in the first quarter has remained sizable, though it is down substantially from the very high level of the fourth quarter.

Available data suggest that borrowing by the household sector has slackened somewhat in the first quarter. Total consumer credit growth in January eased slightly from its fourth-quarter pace, and as noted, consumer lending by banks in February was quite sluggish. Data on mortgage lending this year are sparse, but the weakening of home sales and housing starts strongly suggests that residential mortgage lending has slowed.[1] Overall, there have been few signs that households are experiencing difficulty with current debt levels: Debt-service burdens have risen only moderately thus far, and delinquency rates on mortgage and consumer loans have generally remained near twenty-year lows, notwithstanding fourth-quarter increases in some measures.

In the state and local sector, the supply of outstanding municipal debt continues to diminish, as previously refunded bonds reach their call dates and are retired while gross issuance of new tax-exempt debt has remained light. With problems of Orange County and other municipalities seemingly contained, and lessened concerns

1. Although it is difficult to discern much drop-off in the growth of real estate loans at commercial banks thus far this year, these loans likely overstate the strength of residential mortgage borrowing for two reasons: First, banks hold a larger share of adjustable rate mortgages on their books and ARMs have been an increasing component of mortgage lending. Second, real estate loans at banks include commercial mortgages, which may have continued the strengthening evident in the second half of last year.

about rising rates, inflows to tax-exempt bond funds resumed in February, and tax-exempt yields have come down even more than those on Treasuries.

Outlook

The staff's economic forecast is based on the assumption that the federal funds rate will hold steady at 6 percent during 1995 and 1996. Under these circumstances, we think it likely that bond yields will move still lower before the end of the year. The "consensus" forecast appears to include a modest further increase in short rates, as well as faster GDP growth and CPI inflation than in our projection, which suggests that there are positive surprises ahead for the bond markets. Next year, bond rates may turn upward as economic growth picks up a little and the external financing needs of firms increase further, although any such tendencies could be muted if deficit reduction turns out to be more dramatic than we have assumed.

Despite a moderation in nominal GDP, the broad monetary aggregates are expected to grow appreciably faster in 1995 and 1996, implying considerable slowing in the growth of their velocities. M3 is likely to accelerate this year, as depository lending continues to expand smartly and banks rely less heavily on managed liabilities outside M3, especially borrowings from abroad. M2 growth should pick up more slowly, reflecting the gradual response of interest rates on liquid deposits to previous increases in market rates. Potential shifts between deposits and long-term mutual funds continue to be a source of uncertainty in the outlook for M2 growth.

Total debt of domestic nonfinancial sectors is expected to expand at a rate near 5 percent in 1995 and 1996, about the same as the expected growth of nominal GDP. Federal debt expands a tad above 5 percent each year, despite a slight narrowing of the unified deficit in 1995, as the Treasury relies more on borrowing and less on drawing down its cash balance to finance the deficit. Debt growth of nonfederal sectors follows a mixed pattern in the forecast: Borrowing by nonfinancial businesses increases, whereas growth of household sector debt slows, and outstanding debt of state and local governments continues to contract.

In the state and local sector, many governments are likely to remain under pressure to cut taxes and to limit new expenditures. Thus, borrowing for new capital purposes is expected to grow only moderately. And while a few refinancing bonds may surface if long-term yields recede further, total gross issuance of tax-exempt debt is not expected to increase appreciably. As in 1994, retirements of pre-refunded and maturing bonds are expected to dominate new issuance this year and next, resulting in further net contractions in outstanding debt of the state and local sector--an unprecedented occurrence on this scale and duration. Although fiscal problems of a few municipalities may impede their access to markets, spreads of tax-exempt yields to those on taxable bonds by and large are likely to remain quite narrow.

In the business sector, the financing gap of nonfinancial corporations is expected to widen appreciably over the projection period as capital expenditures outstrip growth in internal funds. Merger activity also is expected to continue to bolster borrowing, though the volume of merger-related equity retirements should taper off in 1996. We expect corporations to meet a good part of their rising credit needs in bond markets; lower long-term interest rates may also prompt some firms to pay down commercial paper and other short-term debt incurred in earlier merger-related transactions. But banks still appear eager to accommodate business demands and are expected to supply a hefty volume of credit to this sector in 1995.

In 1996, business loan growth slows somewhat as corporate needs to finance inventories decline and as banks perhaps become more cautious in setting terms and standards.

In the household sector, consumer credit growth is projected to trend down this year and next, in keeping with the expected moderation in expenditures for autos and other consumer durables and with rising repayments of debt. Home mortgage debt growth is expected to remain subdued this year, as the lagged effect of higher interest rates continues to feed through to housing market activity but then to pick up a bit in 1996. The strong preference for adjustable rate mortgages should diminish in coming quarters in light of recent and prospective declines in yields on fixed rate mortgages, and we are likely to see a bit more refinancing activity. Although we do not anticipate that quality concerns will impose significant constraints in these credit markets, both households and lenders are likely to become more cautious down the road, as delinquency rates and debt-service burdens rise.

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CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS[1]
(Percent)

			Nonfederal						MEMO	
				Households						
	Total[2]	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1	3.2
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5	11.0
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3	4.7
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1	8.0
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6	7.7
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8	6.0
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7	4.7
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0	3.5
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7	6.4
1993	5.4	8.3	4.3	7.1	6.4	7.8	0.6	7.1	-0.3	5.0
1994	5.0	4.7	5.2	8.2	6.3	13.6	3.8	-2.9	5.7	6.3
1995	5.0	5.2	5.0	6.3	5.7	9.4	5.5	-3.8	1.0	4.7
1996	4.8	5.1	4.7	5.8	5.8	7.0	4.8	-1.6	1.0	4.8
Quarter (seasonally adjusted annual rates)										
1994:1	5.3	6.3	4.9	7.1	6.2	8.4	3.6	0.7	7.6	6.1
2	4.4	3.6	4.7	7.2	5.5	13.8	3.7	-2.8	6.0	7.2
3	4.9	3.9	5.3	8.7	7.2	13.8	3.9	-4.9	2.0	6.2
4	5.1	4.5	5.4	8.8	5.8	15.8	3.9	-4.8	6.7	5.8
1995:1	5.8	7.4	5.2	6.3	5.5	10.2	6.2	-4.4	1.5	5.8
2	4.5	3.3	4.9	6.4	5.6	9.3	5.5	-4.6	0.6	4.1
3	5.0	5.9	4.7	6.1	5.6	8.7	5.0	-3.5	0.7	4.4
4	4.4	3.7	4.7	6.0	5.6	8.2	5.0	-2.9	1.0	4.6
1996:1	5.8	8.5	4.7	5.9	5.6	7.5	4.9	-2.3	1.0	4.9
2	4.5	4.0	4.7	5.8	5.7	7.1	4.8	-1.9	1.0	4.8
3	4.4	3.8	4.6	5.6	5.7	6.6	4.7	-1.4	1.0	4.8
4	4.4	3.8	4.6	5.5	5.7	6.2	4.6	-0.8	1.0	4.7

1. Data after 1994:4 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4.
2. On a quarterly average basis, total debt growth is projected to be 5.0 in 1995 and 4.8 in 1996. Federal debt rises 4.9 percent in 1995 and 5.1 percent in 1996. Nonfederal debt is projected to increase 5.1 percent in 1995 and 4.7 percent in 1996.

2.6.3 FOF

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FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS[1]
(Billions of dollars)

	Calendar year			-1994-	-----------1995-----------				-----------1996-----------			
	1994	1995	1996	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
				-----------Seasonally Adjusted Annual Rates-----------								
Net funds raised by domestic nonfinancial sectors												
1 Total	580.4	615.2	645.2	554.7	706.0	547.0	635.3	572.6	769.8	603.9	600.2	606.9
2 Net equity issuance	-40.9	-38.4	-13.0	-102.0	-46.5	-45.0	-37.0	-25.0	-16.0	-14.0	-12.0	-10.0
3 Net debt issuance	621.3	653.6	658.2	656.7	752.5	592.0	672.3	597.6	785.8	617.9	612.2	616.9
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	55.2	117.8	120.4	77.5	118.3	116.3	108.1	128.7	118.8	121.0	118.1	123.6
5 Net equity issuance	-40.9	-38.4	-13.0	-102.0	-46.5	-45.0	-37.0	-25.0	-16.0	-14.0	-12.0	-10.0
6 Credit market borrowing	143.3	214.8	197.9	150.7	239.9	215.8	201.9	201.4	202.4	197.4	196.4	195.4
Households												
7 Net borrowing, of which:	351.4	294.3	287.6	397.7	294.8	301.4	291.2	289.6	291.4	289.4	285.4	284.4
8 Home mortgages	187.7	180.3	193.1	180.5	173.7	180.8	182.1	184.6	188.6	191.6	194.6	197.6
9 Consumer credit	117.5	92.6	75.8	149.4	100.0	94.2	90.2	86.2	81.0	78.0	74.0	70.0
10 Debt/DPI (percent)[3]	90.1	90.9	91.9	91.0	91.0	91.7	91.9	92.0	92.1	92.6	92.7	92.8
State and local governments												
11 Net borrowing	-29.3	-36.3	-14.7	-46.6	-42.2	-43.7	-32.7	-26.7	-21.2	-17.2	-13.2	-7.2
12 Current surplus[4]	-62.5	-48.2	-44.9	-69.3	-49.8	-47.0	-45.7	-50.5	-48.6	-46.5	-42.0	-42.4
U.S.government												
13 Net borrowing	155.9	180.9	187.4	155.0	260.0	118.4	211.9	133.3	313.2	148.3	143.6	144.3
14 Net borrowing;quarterly, *nsa*	155.9	180.9	187.4	59.7	62.7	6.8	57.2	54.2	74.9	14.3	41.0	57.2
15 Unified deficit;quarterly, nsa	186.1	170.1	185.7	74.0	68.0	-22.1	50.0	74.3	98.8	-34.2	42.2	78.8
Funds supplied by												
16 depository institutions	197.7	201.4	212.4	197.4	238.4	189.1	187.6	190.5	207.7	211.7	212.7	217.7
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	188.1	187.6	188.0	188.5	188.6	188.8	189.1	189.1	189.5	189.4	189.3	189.2
18 Dom. nonfinancial borrowing	9.2	9.2	8.9	9.5	10.8	8.4	9.4	8.3	10.8	8.4	8.2	8.2
19 U.S. government[5]	2.3	2.5	2.5	2.2	3.7	1.7	3.0	1.8	4.3	2.0	1.9	1.9
20 Private	6.9	6.7	6.3	7.3	7.1	6.7	6.5	6.4	6.5	6.4	6.3	6.3

1. Data after 1994:4 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

Recent Developments

Since the February FOMC, the multilateral-trade-weighted average foreign exchange value of the dollar in terms of the other G-10 currencies has fluctuated sharply, declining about 5 percent on balance. Over the intermeeting period the dollar depreciated 10 percent in terms of the yen and 7 percent in terms of the mark. The further fall in the dollar over the intermeeting period appears, in part, to have been in response to a growing market perception that additional tightening of U.S. monetary conditions is unlikely in the near term. Heightened concern by market participants about U.S. external imbalances and the government fiscal deficit may have contributed to the downward pressure on the dollar as well. Continued financial turmoil in Mexico also added to negative sentiment toward the dollar in terms of other industrial-country currencies as the process of adjustment in the Mexican economy implies reduced exports for the United States.

With the dollar under strong selling pressure, U.S. authorities purchased dollars on March 2 and 3. The March 3 intervention followed operations earlier that day by the Bank of Japan

. Subsequently, the dollar fell to post-war record lows--below 89 yen per dollar and 1.35 marks per dollar--on March 8 before recovering partially, at least in terms of the mark, later in the period. The dollar revisited its low against the yen on March 21 and 22. In contrast to its fall in terms of the mark and the yen, the dollar is about unchanged over the intermeeting period in terms of the U.K. pound and the Canadian dollar.

On average, foreign short-term interest rates have risen about 40 basis points since the February FOMC while comparable U.S. rates have fallen 10 basis points. Three-month rates are up about 260 basis points and 280 basis points in France and Italy, respectively, as downward pressure on the currencies of these countries in terms of the mark led authorities to raise official rates. In contrast three-month rates are about unchanged in Germany and down 15 basis points in Japan. Foreign rates on 10-year government bonds have moved down about 20 basis points on average, compared with declines of about 50 basis in U.S. rates. German long-term rates are 30 basis points lower and those in Japan are 60 basis points lower

While the dollar has weakened over the intermeeting period in terms of many industrial country currencies it has appreciated sharply further against the Mexican peso The peso-per-dollar rate moved from about 5-1/2 at the beginning of February to a peak near 8 in early March before recovering somewhat later in the period. On balance, the dollar has risen around 30 percent in terms of the peso. The impending agreement on the terms of the $20 billion U.S. support package, which came on February 21 and the announcement of the Mexican government's new stabilization program on March 9 boosted the peso only temporarily; market confidence in the Mexican economy and economic policy remains fragile. When the value of the dollar is measured in terms of an eighteen-country index using U.S.bilateral import weights, the depreciation of the dollar is only 2 percent in nominal terms over the intermeeting period, largely because of the weak peso. However once Mexico's prices adjust fully to the change in the peso, the depreciation of the dollar on this basis in terms of these eighteen currencies when adjusted for changes in relative consumer prices should match more closely that of the dollar on a multilateral-trade-weighted basis in terms of the G-10 currencies.

. The Bank of Japan has intervened frequently over the period for a total of $9 billion. Intervention by the Desk on March 2 and 3 totaled $750 million against the mark and $670 million against the yen, split evenly between the accounts of the Treasury and the System. At the start of the intermeeting period, the Bank of Mexico drew $1 billion each from its swap lines with the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve It later repaid to the System and to the Treasury $500 million drawn in January while making a new drawing of $3 billion from the ESF's medium-term swap facility. Thus, the total Mexican drawings outstanding on the ESF and the Federal Reserve are $5 billion, including $1 billion on the Federal Reserve.

The pace of economic expansion in the major foreign industrial countries has moderated in recent months from the strong 1994 outcome although the latest indicators have been mixed. In Germany, the imposition of an income tax surcharge of 7-1/2 percent in January is likely to have slowed consumption growth. Nevertheless, in western Germany, new orders surged in December and business production plans remained robust through January. In the United Kingdom, industrial production fell in January while new orders bounced up in February and business sentiment remained strong. In January manufacturing orders and retail sales rose in Canada. Industrial production fell in Japan, reflecting the effects of the Kobe earthquake. Although machinery orders fell, the February Tankan survey by the Bank of Japan reported the fourth consecutive quarterly increase in business sentiment at major manufacturing firms.

Consumer price inflation remained subdued in the major foreign industrial countries except Italy where prices have accelerated over the past few months. Wholesale prices and wages in Germany, producer prices in the United Kingdom, and industrial product prices in Canada all point to increasing price pressures at intermediate stages of production in those countries.

The U.S. nominal trade deficit in goods and services widened sharply in January from its December level as exports fell while imports expanded. The decline in exports was primarily in capital goods, including aircraft, semiconductors, and telecommunications equipment. The increase in imports was widespread over most trade categories. The sizeable change in the trade deficit was, in part, the counterpart to the sharp reduction in the Mexican trade deficit in January which moved into surplus in February. The U.S. nominal trade deficit on goods and services had narrowed somewhat in the fourth quarter of 1994 as exports grew sharply.

In January, export prices rose strongly for the fourth consecutive month while non-oil import prices rose only slightly. Much of the rise in export prices was accounted for by nonagricultural industrial supplies. The price of imported oil rose moderately in January, reflecting a tighter market for lighter-end petroleum products. Currently, spot WTI is trading at $18.65 per barrel, slightly above the level at the time of the February FOMC.

In the fourth quarter, the U.S. current account deficit was $16 billion, annual rate, larger than in the third quarter. Increased payments of net investment income and a seasonal jump in unilateral transfer payments more than offset the drop in the trade deficit. Higher interest rates resulted in a greater increase in U.S. investment income payments abroad than in income receipts. The growing U.S. net liability position also contributed to the rise in net payments on investment income. Net direct investment income payments abroad rose as well, further increasing our deficit on investment income.

Outlook

The change in our outlook for real net exports of goods and services since the last forecast reflects the influence of several factors: greater projected slowing of U.S. real output growth; downward revision to projected total foreign growth, the result of lower projected growth in Mexico and other Latin American countries as well as in the industrial countries; and a somewhat lower projected path for the dollar in terms of the G-10 country currencies. These factors have offsetting effects, as weaker U.S. growth and a lower dollar tend to reduce imports and strengthen real net exports while developments in Mexico and weaker foreign demand contribute to a deterioration. On balance, we now expect a small improvement in real net exports through the end of the forecast period whereas in January we projected a slight further decline. However, in large part because of the timing of the effects of the Mexican adjustment, the projected improvement in real net exports is not projected to begin until after mid-1995.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will be little changed from current levels through the end of the forecast period. This projected path is marginally lower than that assumed in the January Greenbook, although the difference is somewhat greater in the very near term and reflects mainly the decline in the dollar over the intermeeting period. This projection can be seen as balancing factors that suggest both upside and downside risks to the dollar forecast. The extent of the dollar's decline during the intermeeting period does not appear to be commensurate with changes in economic fundamentals here or abroad, and the dollar might thus be expected to rebound. Conversely, heightened market concerns about U.S. external imbalances and the fiscal deficit and associated concerns about U.S. leadership could contribute to continued downward pressure on the dollar.

We project that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate moderately on balance both this year and next. The sharp nominal appreciation of the dollar against the peso that has already taken place this year is likely to be partially reversed and, in any case, is expected to be offset by moderate depreciation of the dollar against the currencies of the major Asian developing countries. Our working assumption is that the peso will move up some from its current value of above 7 pesos per dollar and will be around 6-1/2 pesos per dollar at the end of next year. This path, combined with projected Mexican inflation, implies a real appreciation of the dollar in terms of the peso of about 20 percent over 1995 and 1996.

Foreign G-7 countries. Real GDP growth in the foreign G-7 countries (weighted by U.S. exports) is projected to average a bit less than 3 percent, annual rate, over the forecast period, 1/4 to 1/2 of a percentage point weaker in each year than projected in the January Greenbook. For 1995, downward revisions to the outlooks for Japan, Canada, and Germany are the largest.

In Japan, real output is expected to expand only slowly in the current quarter as a result of the disruptions caused by the earthquake; damage estimates from the earthquake have risen to more than $100 billion. The pace of activity is expected to strengthen during 1995, in part reflecting the construction spending associated with repairing the damage in Kobe. Next year, growth is projected to average 3-1/4 percent as domestic demand strengthens. Net exports are likely to make a negative contribution to growth this year and next as a result of the stronger yen.

Real output growth in Germany is estimated to have slowed sharply in the current quarter, the result of severe weather and the tax surcharge, but then should recover to about 2-3/4 percent, annual rate, over the remainder of the forecast period. The stronger mark should result in weaker exports for Germany this year and next than was the case in 1994; but domestic demand, especially continued investment spending, is projected to support the expansion of real output. Growth in France, projected to rise from 3-1/4 percent this year to 3-3/4 percent next year, is also expected to be supported by stronger investment spending. In the United Kingdom and Canada, real GDP growth is projected to slow this year and a bit more next year from the very rapid rates experienced in 1994. In both these countries, official interest rates have been raised in recent months to counter inflationary pressures and to support their respective currencies, and the most recent budget in Canada implies significant fiscal tightening through the end of 1996. In addition, the projected deceleration of Canadian output reflects the projected slowing in U.S. growth.

Consumer price inflation in the foreign G-7 is expected to be little changed from this year, the result of offsetting factors. The elimination of the tobacco tax effect in Canada and higher indirect taxes in Italy raise measured inflation in those countries this year. Recent exchange rate developments should restrain inflation in Japan and Germany and exacerbate it in Canada and, especially, Italy.

Our forecast assumes that foreign short-term interest rates, on average, will decline about 25 basis points in the very near term and then rise about 50 basis points through the end of 1996. Declines in the short run will occur primarily in France, where political uncertainties have led to sharp rises in short-term rates in recent weeks. After the election in April/May in France, rates are expected to reverse some of their rise. With economic activity projected to remain less robust in Japan than elsewhere, short-term rates there are now projected to remain unchanged. Because of the strength of the mark and the yen, we have assumed a lower path for short-term interest rates than was the case in the January Greenbook.

Foreign long-term rates have edged down over the intermeeting period as signs of some slowing in growth have emerged. Our forecast incorporates the assumption that these rates will remain near current levels as favorable inflation performance persists in most of these countries.

Other countries. The real GDP of major trading partners of the United States in the developing world (weighted by U.S. nonagricultural export shares) is forecast to increase 3-1/2 percent during 1995 and 5-1/4 percent during 1996. The aggregate growth outlook has been revised down 1 percentage point for 1995, mainly to incorporate substantial downward revisions to our growth forecasts for major Latin American trading partners, especially Mexico.

Our forecast for real GDP growth in Mexico during 1995, a negative 4-1/2 percent, has been revised down 4 percentage points since the January Greenbook. This revision reflects a further substantial tightening of fiscal policy, continued instability in financial markets, and a perceived worsening of the condition of the financial sector. Our forecast continues to be that economic activity will begin to recover slowly in the early part of 1996. The changes to our outlook for real GDP growth and the real peso are consistent with a further reduction of about $5-$6 billion in our forecast of Mexico's current account deficit in 1995-96, to a level of about $9 billion in 1995 (compared with an official Mexican forecast of about $2 billion) and $6 billion in 1996. The deficit was $29 billion in 1994.

Our forecast for real GDP growth in Argentina in 1995, about 1/2 percent, is 5 percentage points lower than our January outlook. This revision reflects (1) the announcement of a severe fiscal austerity plan intended to correct fiscal imbalance, (2) weakened consumer and investor confidence, and (3) serious liquidity problems in the banking sector that emerged in the aftermath of the Mexican crisis and have worsened in recent weeks. On average, we expect GDP in our Latin

American trading partners to decline 1 percent over this year but to rebound 3-1/2 percent next year.

We project that growth in our major Asian developing-country trading partners will average above 6-1/2 percent this year and next. This forecast implies some slowing from the 1994 average growth of 7-3/4 percent, a result of increases in domestic interest rates in some of these countries that will slow domestic demand and some weakening of growth in China and the United States that will reduce external demand.

U.S. real net exports. Real net exports of goods and services are projected to deteriorate slightly further during 1995 as exports and imports grow at nearly the same rate, with imports starting from a larger base. This deterioration is more than accounted for by developments in the first half of the year, due primarily to the change in our trade balance with Mexico. In 1996, however, export growth is projected to rise and to significantly exceed that of imports. As a result, real net exports improve sufficiently over 1996 to lead to a slight narrowing of the deficit over the forecast period as a whole.

QUANTITIES OF GOODS AND SERVICES*
(percent change from end of previous period, saar)

		Projection			
	1994	1995			1996
		Q1	Q2	H2	
Exports of G&S	11.6	3.3	7.3	8.2	9.2
of which:					
Services	4.8	-2.6	7.1	6.2	5.3
Computers	29.3	31.2	31.1	26.4	26.3
Other goods[1]	10.2	0.8	3.7	4.9	6.4
Imports of G&S	14.1	8.1	8.6	4.8	6.3
of which:					
Services	3.3	10.0	1.7	0.3	2.5
Oil	-1.7	-12.9	40.7	4.4	1.3
Computers	36.0	26.3	33.6	23.2	21.6
Other goods[2]	14.2	6.0	1.2	0.8	3.0

* NIPA basis, 1987 dollars.
1. Nonagricultural exports of goods excluding computers
2. Non-oil imports of goods excluding computers

Exports of goods and services are projected to decelerate markedly this year from their rapid growth in 1994. While computer exports are expected to continue to expand rapidly, nonagricultural exports other than computers and service exports are projected to slow sharply or decline in the first quarter. This outcome primarily reflects our view that the impact of developments in Mexico on U.S. exports of goods and services will be felt quite quickly. Export growth is expected to pick up somewhat later this year and even more next year as foreign growth strengthens, particularly in Latin America, and as the effects of the lower dollar begin to show through. In addition, continued solid demand growth in most of the industrial countries will support expansion of exports throughout the forecast period.

We project that the growth of non-oil imports other than computers will slow to 2-1/4 percent this year from double-digit rates last year and will strengthen only to 3 percent next year. This slowdown in imports reflects importantly the projected path for U.S. GDP. By 1996, higher prices work to reduce imports as well. Computer imports are projected to remain quite strong but to slow some over the forecast period. We expect the quantity of oil imports to fall in the current quarter as a result of lower consumption (given unseasonally mild weather) and greater stock-draws. However, over the remainder of the forecast period, oil imports are projected to remain on an upward trend as U.S. oil consumption keeps pace with economic activity and domestic production resumes its decline.

Oil prices. The first- and second-quarter assumptions for oil import prices have been revised up by $0.25 and $0.10 per barrel, respectively. The price of imported oil rose in January and is expected to rise again in February in line with the increase in world crude oil prices. We expect the near-term spot price of WTI to average $18.20 per barrel and to reach $18.50 per barrel by June 1995. By the end of the second quarter, the oil import unit value is projected to rise to $16.00 per barrel and remain at that level through 1996. We continue to assume that Iraq will not return to the world oil market until 1996; U.N. sanctions against Iraqi oil exports remained in place following this month's periodic sanction review.

Prices of non-oil imports and exports. On average, prices of U.S. non-oil imports other than computers are expected to continue to rise at around the recent rate of 6 percent during 1995 and then to slow in 1996. These prices are boosted in the near term by the lower value of the dollar. Increases in world commodity prices are projected to be much lower than in 1994, and they contribute to the expected slowing of non-oil import prices. Prices of non-agricultural exports other than computers are projected to decelerate over the forecast period, in line with the slowing in U.S. producer prices.

SELECTED PRICE INDICATORS
(percent change from end of previous period except as noted, ar)

		Projection			
	1994	1995			1996
		Q1	Q2	H2	
US PPI[1]	3.6	7.6	4.9	2.9	2.4
Nonag.exports[2]	4.9	5.3	4.5	3.0	2.1
Non-oil imports[2]	4.0	5.3	8.1	4.9	2.6
Oil imports					
(Q4 level, $bl.)	15.40	15.66	15.79	16.00	16.00

1. Selected categories (ex computers) weighted by U.S. exports.
2. Excluding computers.

Nominal trade and current account balances. The nominal trade deficit on goods and services is expected to widen some during 1995 but then to improve by a greater amount in 1996, resulting in a small net improvement by the end of the forecast period. The deficit on net investment income is projected to increase. As a consequence, the current account deficit will increase this year to nearly $190 billion and will remain at about that rate next year, approximately 2-1/2 percent of GDP.

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1993-96
(Percent; quarterly change at an annual rate except as noted)

			Projected		1994			Projected 1995			
Measure and country	1993	1994	1995	1996	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP											
Canada	3.2	5.6	3.1	2.6	6.6	5.6	5.9	4.0	3.1	2.6	2.6
France	-0.6	3.6	3.3	3.7	5.1	3.3	2.4	3.0	3.3	3.4	3.6
Germany	-0.1	4.0	2.5	2.8	4.2	4.4	4.0	1.3	3.2	2.7	2.8
W. Germany	-0.5	3.3	1.9	2.3	3.6	4.2	3.0	0.2	3.0	2.2	2.3
Italy	0.4	2.9	3.8	3.6	4.6	4.0	2.0	2.8	3.8	4.2	4.5
Japan	-0.5	0.9	2.0	3.2	0.7	3.5	-3.4	0.8	2.2	2.4	2.6
United Kingdom	2.7	3.9	3.1	2.8	5.4	3.1	3.1	3.2	3.2	3.0	3.0
Average, weighted by 1987-89 GDP	0.4	2.9	2.8	3.1	3.6	3.8	1.1	2.1	3.0	2.9	3.1
Average, weighted by share of U.S. nonagricultural exports											
Total foreign	2.9	4.3	3.0	3.6	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	1.7	4.0	2.8	2.9	4.8	4.5	3.0	2.9	3.0	2.7	2.8
Developing countries	6.2	5.6	3.4	5.3	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
Canada	1.8	0.0	2.9	2.5	-1.4	2.2	1.3	3.0	3.4	2.6	2.4
France	2.1	1.6	1.6	1.5	2.5	0.6	1.7	1.8	1.5	1.5	1.4
Western Germany	3.7	2.8	2.2	2.4	2.7	1.4	1.3	4.2	2.0	1.4	1.3
Italy	4.1	3.8	6.4	6.3	3.4	3.0	4.7	6.1	8.2	5.7	5.8
Japan	1.2	0.8	-0.5	-0.5	1.3	-0.9	2.1	-1.2	-0.5	0.0	-0.1
United Kingdom	1.6	2.6	3.5	3.9	7.4	0.1	2.6	3.5	7.5	0.8	2.6
Average, weighted by 1987-89 GDP	2.2	1.8	2.1	2.1	2.6	0.6	2.3	2.1	2.8	1.6	1.7
Average, weighted by share of U.S. non-oil imports	1.9	1.1	1.6	1.5	1.1	0.7	1.9	1.6	2.1	1.4	1.4

Note. Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.

U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1992				1993				1994		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993
NIPA Real Net Exports of Goods & Services (87$)	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8	-19.5	-32.3	-73.9
Exports of G&S	571.0	573.1	580.5	590.7	589.2	600.2	595.3	625.2	619.6	643.9	542.6	578.8	602.5
Goods	416.0	421.5	427.4	441.1	433.9	443.3	438.5	468.1	464.4	484.6	397.1	426.5	445.9
Agricultural	38.9	38.4	40.5	41.3	39.1	39.3	36.9	39.1	36.6	37.5	35.5	39.8	38.6
Computers	47.1	52.3	56.2	60.1	60.9	62.9	68.5	74.0	76.9	79.3	41.4	53.9	66.6
Other Goods	330.0	330.8	330.7	339.8	333.9	341.1	333.1	355.1	350.9	367.8	320.2	332.8	340.8
Services	154.9	151.6	153.1	149.6	155.3	156.9	156.7	157.1	155.2	159.2	145.5	152.3	156.5
Imports of G&S	588.8	607.1	619.4	629.3	646.8	669.6	681.6	707.4	723.6	755.6	562.1	611.1	676.3
Goods	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	648.3	464.4	512.8	572.8
Oil	47.2	51.6	53.1	52.8	53.4	57.7	56.7	58.1	56.5	60.3	49.2	51.2	56.5
Computers	51.2	57.5	64.7	68.4	73.3	80.0	87.8	94.6	99.7	106.9	41.6	60.5	83.9
Other Goods	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	481.0	373.7	401.2	432.4
Services	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	107.4	97.7	98.3	103.6
Memo: (Percent change 1/)													
Exports of G&S	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6	8.1	5.0	5.8
Agricultural	13.4	-5.0	23.7	8.1	-19.7	2.1	-22.3	26.1	-23.2	10.2	10.9	9.5	-5.3
Computers	24.4	52.0	33.3	30.8	5.4	13.8	40.7	36.2	16.6	13.1	26.7	34.8	23.1
Other Goods	3.1	1.0	-0.1	11.5	-6.8	8.9	-9.1	29.2	-4.6	20.7	7.2	3.8	4.5
Services	5.9	-8.3	4.0	-8.8	16.1	4.2	-0.5	1.0	-4.8	10.7	4.7	-2.0	5.0
Imports of G&S	6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9	4.0	8.6	12.4
Oil	0.9	42.8	12.1	-2.2	4.6	36.3	-6.8	10.2	-10.6	29.7	8.3	12.1	10.0
Computers	53.5	59.1	60.3	24.9	31.9	41.9	45.1	34.8	23.4	32.2	45.6	48.7	38.3
Other Goods	2.4	10.1	3.3	5.1	11.1	9.7	2.7	14.2	10.9	20.7	2.9	5.2	9.3
Services	7.2	-7.4	1.2	5.4	4.5	8.7	9.3	12.4	3.4	-4.0	-6.2	1.4	8.7
Current Account Balance	-33.4	-66.1	-74.4	-97.5	-79.4	-102.4	-111.4	-122.3	-128.9	-151.3	-6.9	-67.9	-103.9
Goods & Serv (BOP), net	-15.5	-41.5	-51.1	-53.4	-57.7	-76.3	-89.0	-79.9	-97.3	-106.5	-28.5	-40.4	-75.7
Goods (BOP), net	-72.3	-97.3	-109.4	-105.3	-116.8	-134.9	-145.9	-132.7	-148.2	-166.9	-74.1	-96.1	-132.6
Services (BOP), net	56.7	55.8	58.3	52.0	59.1	58.6	56.9	52.8	50.9	60.3	45.6	55.7	56.8
Investment Income, net	9.7	6.5	4.9	-2.9	7.4	2.7	8.1	-2.4	-3.3	-11.3	14.8	4.5	4.0
Direct, net	50.8	51.0	47.1	42.0	54.6	50.8	55.9	48.4	45.8	43.4	55.4	47.7	52.4
Portfolio, net	-41.1	-44.5	-42.2	-44.9	-47.2	-48.1	-47.8	-50.8	-49.1	-54.7	-40.5	-43.2	-48.5
Unilateral Transfers, net	-27.7	-31.1	-28.2	-41.2	-29.1	-28.8	-30.5	-40.1	-28.4	-33.5	6.7	-32.0	-32.1

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1994		Projection 1995				Projection 1996				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1994	1995	1996
NIPA Real Net Exports of Goods & Services (87$)	-117.0	-109.6	-119.8	-124.5	-120.8	-115.5	-111.0	-107.8	-104.8	-101.8	-110.6	-120.2	-106.4
Exports of G&S	666.5	697.8	703.5	716.0	729.5	744.7	760.4	777.3	794.7	813.0	656.9	723.4	786.3
Goods	505.1	533.1	539.9	549.6	560.6	573.1	586.6	601.2	616.3	632.3	496.8	555.8	609.1
Agricultural	40.7	46.1	45.4	44.3	44.1	44.9	45.1	45.4	45.6	45.9	40.2	44.7	45.5
Computers	85.9	95.7	102.4	109.6	116.2	123.2	130.5	138.4	146.7	155.5	84.5	112.8	142.8
Other Goods	378.5	391.3	392.0	395.6	400.3	405.1	410.9	417.4	424.0	430.9	372.1	398.3	420.8
Services	161.3	164.7	163.6	166.5	169.0	171.6	173.8	176.1	178.4	180.7	160.1	167.7	177.2
Imports of G&S	783.5	807.4	823.3	840.5	850.3	860.3	871.5	885.0	899.5	914.8	767.5	843.6	892.7
Goods	674.6	696.2	709.5	726.1	735.9	745.6	756.2	769.2	782.8	797.3	658.6	729.3	776.4
Oil	64.3	57.1	55.2	60.1	61.7	61.4	61.2	62.2	62.2	62.2	59.6	59.6	61.9
Computers	115.4	128.7	136.4	146.7	154.7	162.8	170.9	179.5	188.5	197.9	112.7	150.2	184.2
Other Goods	494.9	510.5	518.0	519.5	519.6	521.6	524.2	527.6	532.2	537.4	486.3	519.7	530.4
Services	108.9	111.2	113.9	114.4	114.4	114.6	115.2	115.9	116.7	117.5	109.0	114.3	116.3
Memo: (Percent change 1/)													
Exports of G&S	14.8	20.1	3.3	7.3	7.8	8.6	8.7	9.2	9.3	9.5	11.6	6.7	9.2
Agricultural	38.8	64.6	-5.7	-9.2	-2.0	7.0	2.3	2.3	2.3	2.3	17.9	-2.7	2.3
Computers	37.7	54.1	31.2	31.1	26.3	26.3	26.3	26.3	26.3	26.3	29.3	28.7	26.3
Other Goods	12.2	14.2	0.8	3.7	4.8	4.9	5.9	6.5	6.5	6.7	10.2	3.5	6.4
Services	5.4	8.7	-2.6	7.1	6.2	6.5	5.2	5.3	5.2	5.2	4.8	4.2	5.3
Imports of G&S	15.6	12.8	8.1	8.6	4.8	4.8	5.3	6.4	6.7	7.0	14.1	6.5	6.3
Oil	29.3	-37.8	-12.9	40.7	11.3	-2.2	-0.9	6.2	0.5	-0.4	-1.7	7.5	1.3
Computers	35.8	54.7	26.3	33.6	23.9	22.5	21.6	21.6	21.6	21.6	36.0	26.5	21.6
Other Goods	12.1	13.2	6.0	1.2	0.1	1.5	2.0	2.7	3.5	3.9	14.2	2.2	3.0
Services	5.7	8.7	10.0	1.7	0.1	0.8	2.1	2.3	2.7	2.9	3.3	3.1	2.5
Current Account Balance	-163.4	-179.0	-179.3	-192.3	-189.0	-202.8	-188.1	-189.2	-183.1	-197.1	-155.7	-190.8	-189.4
Goods & Serv (BOP), net	-115.0	-106.7	-118.3	-125.8	-124.4	-119.4	-114.1	-110.0	-105.8	-101.4	-106.4	-122.0	-107.8
Goods (BOP), net	-178.5	-171.9	-181.3	-191.9	-193.2	-191.2	-188.4	-186.7	-185.1	-183.2	-166.4	-189.4	-185.8
Services (BOP), net	63.5	65.2	63.0	66.1	68.8	71.8	74.3	76.8	79.2	81.8	60.0	67.4	78.0
Investment Income, net	-16.1	-30.0	-28.9	-34.5	-32.6	-40.9	-41.4	-46.7	-44.8	-52.7	-15.2	-34.2	-46.4
Direct, net	40.7	35.6	38.5	40.2	41.3	41.4	42.2	43.5	44.5	44.7	41.4	40.3	43.7
Portfolio, net	-56.9	-65.7	-67.4	-74.7	-73.9	-82.3	-83.7	-90.2	-89.3	-97.5	-56.6	-74.6	-90.2
Unilateral Transfers, net	-32.3	-42.3	-32.0	-32.0	-32.0	-42.5	-32.5	-32.5	-32.5	-43.0	-34.1	-34.6	-35.1

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.